

contracting their secured circulation until it stood on June 1, 1893, at only \$177,425,555. They had shared in the expansion of business, however, by the increase in their numbers and in their deposits. The number of national banks formed in 1890 was 307, with an aggregate capital of \$36,250,000. The year 1891 showed organizations of 193 new banks, with capital of \$20,700,000; 1892 showed organizations of 163 banks, with capital of \$15,285,000; and 1893 had already shown 119 new organizations, with capital of \$11,230,000, before the process of expansion was arrested, with the banking year only two-thirds complete. Even more remarkable was the extension of banking on deposits instead of on the capital and surplus of the banks. Bank capital increased seventy per cent, from 1870 to 1892, and the number of banks more than doubled, but individual deposits were multiplied three and one half times and rose from one-third of total liabilities in 1870 to more than one-half in 1892.

One of the defects of the operation of the national banking law, revealed anew by the crisis, was the use made of the provisions permitting the deposit in reserve cities of three-fifths of the cash reserve of the country banks and permitting the reserve banks to pay interest on such deposits. The national banks of the country on May 4, 1893, showed \$174,312,119 as due from reserve agents, \$121,673,794 due from national banks, and \$32,681,708 due from State banks. Many banks throughout the West were obliged to suspend, because their reserves were not within ready reach. Out of a total of one hundred and fifty-eight national banks which were forced to suspend payments during the year ending October 31, 1893, eighty-six were authorized to resume business within a short time, and not one of these was east of the Ohio or north of the Potomac. This is the best proof that these Western and Southern banks would have been able to maintain their solvency if their cash reserve had been in their own custody.¹ It was also a subject of

¹ This argument is intelligently worked out by Mr. Alexander D. Noyes, "The Banks and the Panic of 1893," in *Political Science*